

Flexible Spending Accounts: The Lowdown On A Newfangled Benefit

Optional Plans Allow Grummanites To Better Meet Their Individual Needs

Choosing your benefits at Grumman has become a bit like shopping for a new car. But unlike selecting intermittent wipers or a megawatt stereo, this is a decision fraught with serious implications.

Should I establish a flexible spending account (FSA) to provide supplementary health care? If I join an HMO, would a health FSA still be a good idea for such expenses as uninsured dental care? What about child care — does it pay more for me to set up a second FSA for that purpose, or to use the IRS credit?

Those types of questions were unheard of years ago. Most Grummanites then were married men whose wives didn't work outside the home; typically, there were two to four youngsters in the picture, too. They had similar needs, and similar benefits.

That's all changed. The "average Grummanite" could also be a single person with no dependents, a single parent, a man or woman whose children have left the nest, or someone supporting an elderly parent.

To meet those differing needs, Grumman now provides more benefit choices. At most locations, the Grummanite may choose between the standard Grumman/Travelers health insurance and membership in a health maintenance organization (HMO — see sidebar).

Today's highly diversified Grummanites may also opt for two types of

flexible spending accounts: the Supplementary Health Care Plan and the Dependent Care Plan. Employees pay their cost with pretax income, and because their income is lowered, end up paying less Federal income tax.

The deadline for choosing your 1986 benefits is November 29.

The first FSA, the Supplemental Health Care Plan, attracted about 2,700 enrollees in 1985 — or about 10 percent of those eligible. "Last year, a

'Last year, a lot of people took a wait-and-see attitude toward the new benefits. I think more people will sign up for 1986, after seeing their co-workers pay less taxes.'

lot of people took a wait-and-see attitude toward the new benefits," comments Mary Kaye Cronin, insurance supervisor for Grumman. "I think more people will sign up for 1986, after seeing their co-workers pay less taxes."

Cronin says most people who can predict their out-of-pocket health expenses will find the health FSA to be beneficial. Without an FSA, only out-of-pocket expenses in excess of five percent of your adjusted gross income are deductible on your tax re-

turn. Most people won't run up such bills in a year if they have a good insurance plan, such as Travelers, or an HMO.

Anything you can claim as an unreimbursed health expense on your tax return can be paid for with an FSA. But the same expense cannot also be used as a tax deduction.

Some eligible expenses include: orthodontics and other uninsured dental expenses, major medical deductibles and copayments (the percentage of the bill that the insured must pay), eye exams, eyeglasses, and routine physicals.

The onus is on the individual to know whether or not an expense is acceptable as an income tax deduction — and likewise, as an FSA-covered expense.

"You should take the same care in setting up an FSA as you do when you prepare your tax return," says Don Sparaco, Grumman Benefits manager. When in doubt, refer to IRS publication number 502. It covers what you generally can deduct on your tax return.

The second FSA, the Dependent Care Plan, covers qualified custodial day care that enables you and/or your spouse to work. This includes day care or babysitting fees for children, and care for an eligible dependent adult.

Grummanites should take note of the distinction between the two FSAs, Cronin says. "Expenses for health

care for yourself and your dependents are reimbursed by the Supplementary Health Care Plan," she says. "Last year, about 80 people mistakenly set up dependent care FSAs to cover dependent health care expenses."

The dependent care option attracted only 75 people in '85, possibly due to the IRS tax credit for child care.

"If both parents are working, their joint income could be high enough to benefit from the dependent care FSA," says Sparaco. "Since the

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more you make, the more advantageous the Dependent Care Plan will be, it pays to calculate beforehand the tax effect of both methods."

At the beginning of a year, cash-flow burdens may also be experienced by some families who enroll in the Dependent Care Plan. Each pay period, at the same time that the FSA money is being deducted from your paycheck, you still have to pay the babysitter and then wait for reimbursement.

"An expense must be incurred before it can be submitted for reim-

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Coping With Three Kids In Braces

Braces. Just saying the word is enough to send a shudder up the spine of any parent of a teenager or preteenager. The average orthodontist's bill costs upwards of \$1,800 these days. And that doesn't include the corollary treatment by other specialists.

Just think what it must be like for someone to have three kids in braces at once. Aldo Arena, flight controls group leader for the Lavi wing program in Plant 107, has been in this predicament for the past few years. So, he set up a Flexible Spending Account in 1985 — as soon as this new benefit was offered.

"The \$2,200 I put in was too little," says Arena. "There's only \$98 left to last until the end of the year."

He's glad the company began



Smile! The Arena family has a big investment in healthy smiles. From L-R: Laurie, 13; Debbie, 17; Aldo, Linda, and Joe, 14.

offering the FSA option, which lets Grummanites set up an account with pretax income. From that fund, employees can pay for any health expense not covered by their

health or dental insurance (Travelers and HMO).

"I could have used the FSA last year," says Arena. His 17-year-old got her braces off this year, so

the amount Arena will assign to the '86 account will be smaller than in '85. His 13-year-old daughter still has a way to go.

One Effective Way To Cover Your Needs

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bursement," says Sparaco. "For some people, that's a problem."

There are circumstances under which you can use both the Dependent Care Plan and the tax credit — provided you don't use both for the same expense.

A word of caution: when establishing either the Supplementary Health Care or Dependent Care FSA, you must first predict what your out-of-pocket expenses will be. You must use the money by the end of the year. The IRS requires an element of risk, so you don't receive a refund of the unused portion at year-end, nor is it carried over into the next.

Here are some other details you should know about FSAs.

- The combined deduction cannot be less than \$3 or more than \$115 per week (a yearly maximum of \$5,980).
- Amounts preselected for either medical or dependent care are not interchangeable.
- Federal regulations will let

someone change or terminate FSAs during the year only when life status changes, for example: marriage, divorce, death of a dependent, birth or adoption of a child, or termination of a spouse's employment.

- Reimbursement is based on the date of treatment, not on the date of payment. You can go for an exam on December 31, 1985, and still be reimbursed by the '85 FSA. You have 90 days after the New Year to file a claim.
- Though you pay for an FSA through weekly or biweekly deductions, you're entitled to use the entire amount in your FSA at any time during the year.
- Employees who leave Grumman can spend up to the amount contributed by the final day at work. If your reimbursements have exceeded your contributions, you must

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The Harrises' \$4,160 Question



T.L.C. Tony and Arlene Harris set up a Dependent Care Plan during 1985 to cover nursery school costs of Anna, 4; Charlie, 3; and Daryl, 15 months.

Fifty-three percent of American women with preschool-aged children now work outside the home, according to a recent study by the Bureau of Labor Statistics.

On her way to her job as an assembler/riveter at Grumman's Stuart Operations in Florida each day, Arlene Harris drops her three children off at a local nursery school/kindergarten.

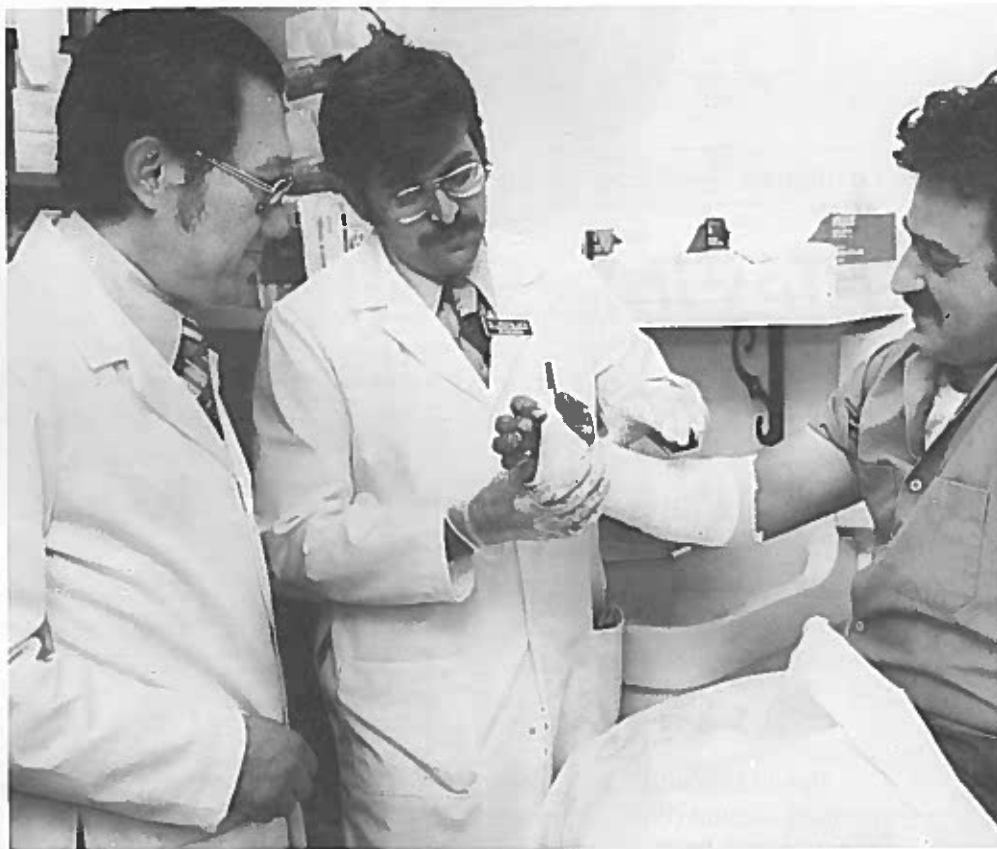
Harris, who came to work for Grumman Stuart Operations five years ago, has three kids: 3½, 2½, and 1. With both Harris and her husband working, the child care costs are huge: \$80 per week, or \$4,160 per year.

To help cope with this expense, Harris set up a flexible spending account for dependent care for 1985.

"I wasn't entirely happy with the account at first," says Harris, who now works in Department 890 - Subassembly. "It took a very long time to get reimbursed."

Harris' more recent reimbursement checks have come promptly. She plans to sign up again for next year, but she and her husband aren't totally sold on the idea — yet.

"I expect to save some on taxes from doing it this way," says Harris. "But until we do our taxes, we won't know exactly how much."



Is An HMO The Right

Now is the time to decide whether your group health insurance coverage is right for you.

Membership in a health maintenance organization is now offered to about 25,000 Grummanites coast-to-coast (though not in areas lacking an HMO). Between now and November 29, eligible Grummanites can either join an HMO or switch back to the Grumman/Travelers Group Health Insurance Plan.

An HMO is a group of general practitioners, specialists and other professionals delivering health care as part of one program. Members get surgical or emergency care at an affiliated hospital.

HMOs stress preventive medical care and members are eligible to have regular physicals. All services are prepaid — there are no insurance forms to fill out and no bills. HMO members keep their Grumman dental, disability, and life insurance coverage.

There are limitations, however. "You have to use the HMO providers," says Mary Kay Cronin, Grumman insurance supervisor. "In addition, there are other coverage limitations, which vary depending on the HMO. The HMOs generally don't cover chi-

roprietary care, and the coverage for psychiatric care is more limited than under the Grumman/Travelers health plan."

The HMO member chooses a family doctor from among HMO physicians. Under the Grumman/Travelers plan, you can go to any doctor. For eligible services, Grumman/Travelers reimburses the expense (within allowable limits).

An HMO might be the right thing if you have a family, are new to an area, or have no family doctor. It might not be if you do a lot of travel out of the area, since out-of-area coverage is limited. If you have children away at college, they might have to return home for non-emergency surgery or doctor's visits.

In emergencies, when travel to an HMO facility would jeopardize the member's health, you can receive treatment by a private physician or hospital emergency room. The bill is then forwarded to the HMO for coverage.

The company pays the entire cost of the Grumman/Travelers' plan. Grumman pays the same per capita amount toward an individual's HMO membership. When the HMO premium is more than the company's



Focus On Prevention. HMOs urge members to have regular physicals. All services are prepaid — there are no insurance forms to fill out and no bills. Shown (above and left) is the Community Health Plan Of Suffolk center, run by Blue Cross/Blue Shield. Shown upper left is the HIP center in Hicksville, Long Island.

HMOs: On Par With Conventional Care



Healthy Option. Barbara Macedonio with son Jarrett, 7. "The treatment you receive at an HMO is really the same — no better, no worse," says Macedonio.

Barbara Macedonio, a graphic artist for Grumman Data Systems, joined a health maintenance organization (HMO) for the most important reason of all — her son Jarrett, 7.

With twice annual checkups and booster shots, the cost of medical care for a child can be pretty hefty. Jarrett is hyperactive and also has a heart condition, which doctors hope will heal itself in the next few years.

Macedonio is satisfied with the quality of care given by her HMO — the Health Insurance Plan (HIP) of Greater N. Y. "When your child is sick, you can bring him right in and see the doctor," she says. "A lot of times, when you go to a private doctor, you sit in the waiting room for hours."

She adds that while going to an HMO isn't quite like going to an old-fashioned family doctor, "it's hard to find doctors like that today. The treatment you receive at an HMO is really the same — no better, no worse."

In medical emergencies, HMO members can use a non-HMO hospital when distance poses a risk. Macedonio's son once fell while visiting his father, and was treated in a non-HMO emergency room.

"I figured I'd just have to pay the bill," Macedonio recalls. "But I called HMO, and they took care of it."

Choice For You?

contribution, the member pays the difference through a pretax, payroll deduction (see accompanying table for payroll deductions at Grumman's participating HMOs).
On Long Island, the Blue Cross/Blue Shield HMO will soon open three new centers: one in Babylon by January 1, 1986, and two more by early spring in Uniondale, L.I., and Rego Park, Queens. Members who

wish to do so can transfer their records to these new centers.
Benefits has mailed an information package to all Grummanites. If you would like to change your health coverage, fill out the Health Coverage Change Request form and return it to Benefits, C16-GHQ, by November 29. If you're happy with your present coverage, do nothing. It will remain the same for '86. ■

1986 HMO Weekly Payroll Deductions

HMO	Family	Individual	Location	HMO	Family	Individual	Location
Blue Cross/ Blue Shield HMO	\$1.83	\$0.00	New York	Health America	\$0.00	\$0.00	Norfolk, VA
Health Insurance Plan of Greater NY	\$0.00	\$0.00	New York	Prucare	\$6.31	\$0.00	Texas
Kaiser Georgetown	\$6.71	\$0.00	Washington, D.C.	Maxicare (TX)	\$6.54	\$0.00	Texas
Care First	\$0.40	\$0.00	Maryland	VIP-HMO	\$9.80	\$0.28	California
Kaiser Baltimore	\$0.47	\$0.00	Maryland	PHP-HMO	\$7.20	\$0.00	California
Freestate	\$0.00	\$0.00	Maryland	Maxicare (CA)	\$15.21	\$1.59	California
				Pacificare	\$9.25	\$0.00	California

Benefits

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refund the money.

- A special FSA withdrawal request must be completed and sent to Travelers for reimbursement. As in all medical claims, you're required to provide receipts from the health care provider.
- Travelers administers the program and prints FSA checks only once a month (the first Saturday). If you have an expense during, say, February, submit your claim by the last week of February. This gives Travelers time to process the claim and print a check on the first Saturday of March. If you wait too long, it'll take four more weeks to get your check.
- You should first accumulate \$100 or more in eligible expenses before submitting a claim to either account. Try to batch them so they total \$100 or more. At year-end, however, you are allowed to submit claims lower than \$100.

More information on flexible spending accounts may be obtained from the Grumman insurance office, Ext. (111) 53146. ■

**Enrollment Deadline:
November 29**

Computing An FSA's Financial Impact

In the following example, an employee who is married with one dependent expects to earn \$25,000 in 1986. He expects to have at least \$1,000 in unreimbursed medical expenses for doctors visits, dental, and orthodontic expenses. He can expect

to save about \$400 in taxes, based on current tax law, from using a flexible spending account (FSA). The actual benefit you derive from an FSA may be smaller depending on your particular tax situation.

	No FSA	\$1,000 FSA
Base Salary	\$25,000	\$25,000
FSA contributed	0	1,000
W-2 (taxable) salary	25,000	24,000
Taxes	6,200	5,800
Take home pay	18,800	18,200
FSA reimbursement	0	1,000
Take home pay plus FSA reimbursement	\$18,800	\$19,200

An employee and his spouse have one dependent and a combined income of \$40,000. They expect to have at least \$4,000 in dependent care expenses for '86. By setting up a dependent care FSA, they can expect to save \$1,800 in taxes based on current tax law. Your actual benefit may be less depending

on your particular tax situation.

Please note that in lieu of a dependent care FSA contribution, the IRS provides a credit for qualified dependent care expenses. You may want to consult with your tax advisor to determine which method will provide greater tax savings.

	No FSA	\$4,000 FSA
Combined base salaries	\$40,000	\$40,000
FSA contributed	0	4,000
W-2 (taxable) salary	40,000	36,000
Taxes	12,600	10,800
Take home pay	27,400	25,200
FSA Reimbursement	0	4,000
Take home pay plus FSA reimbursement	\$27,400	\$29,200

At \$59, Legal Plan Is A Hot Item

Lawyers. Nowadays, it seems that you need them to arrange everything.

Most Grumman divisions now offer the Prepaid Legal Services Plan. It was a popular item during 1985 — about 2,800 people signed up and had the \$59.80 annual premium deducted from their income before taxes.

Members call a toll-free hotline number, which is available for non-emergencies from 8:30 a.m. to 6 p.m. Monday through Friday (except legal

holidays). It gives information on participating providers in their area. A participating provider is an attorney who contracts to provide legal services, usually at a reduced rate. In areas where there are none, members must use a private attorney, but still will get reimbursed for expenses according to a schedule.

Tommy Montgomery, a machinist at Grumman Houston, already had a house picked out when Grumman

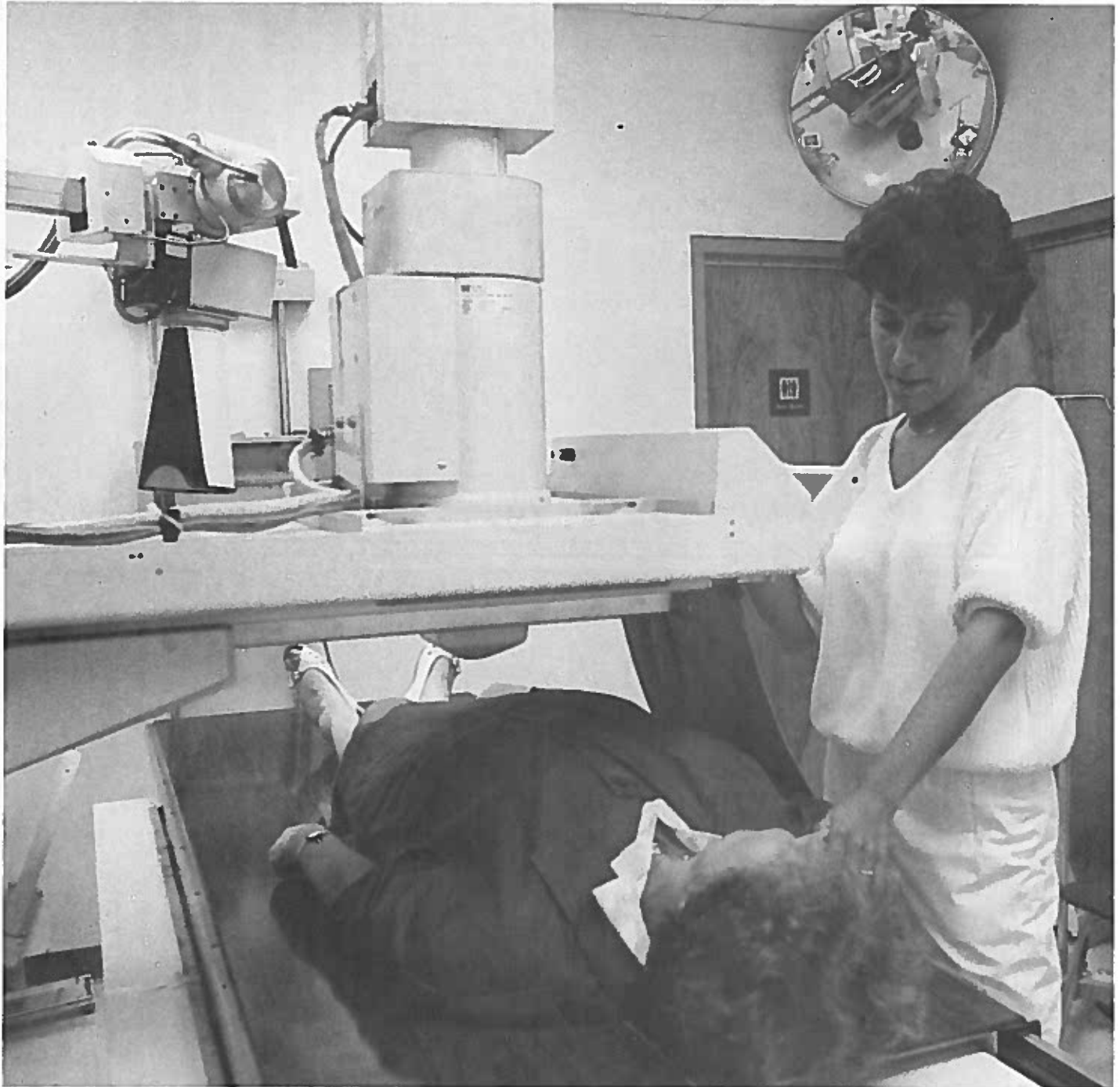
offered the plan in 1985. Montgomery signed right up.

In Texas, unlike New York, a buyer or seller of a home is not required by law to retain an attorney to close the purchase or sale. But he or she may opt to have a lawyer to review the contract before closing, as Montgomery did. The fee was small — \$40 — but the plan reimbursed the whole amount. ■

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The Choice Is Yours

Between now and November 29, Grummanites will have the opportunity to select a variety of benefits for 1986, including a Supplementary Health Care Plan, a Dependent Care Plan, membership in a health maintenance organization (HMO), and the Prepaid Legal Services Plan. In photo above, medical services are rendered at a center operated by the Health Insurance Plan of Greater New York, an HMO offered to Long Island Grummanites.